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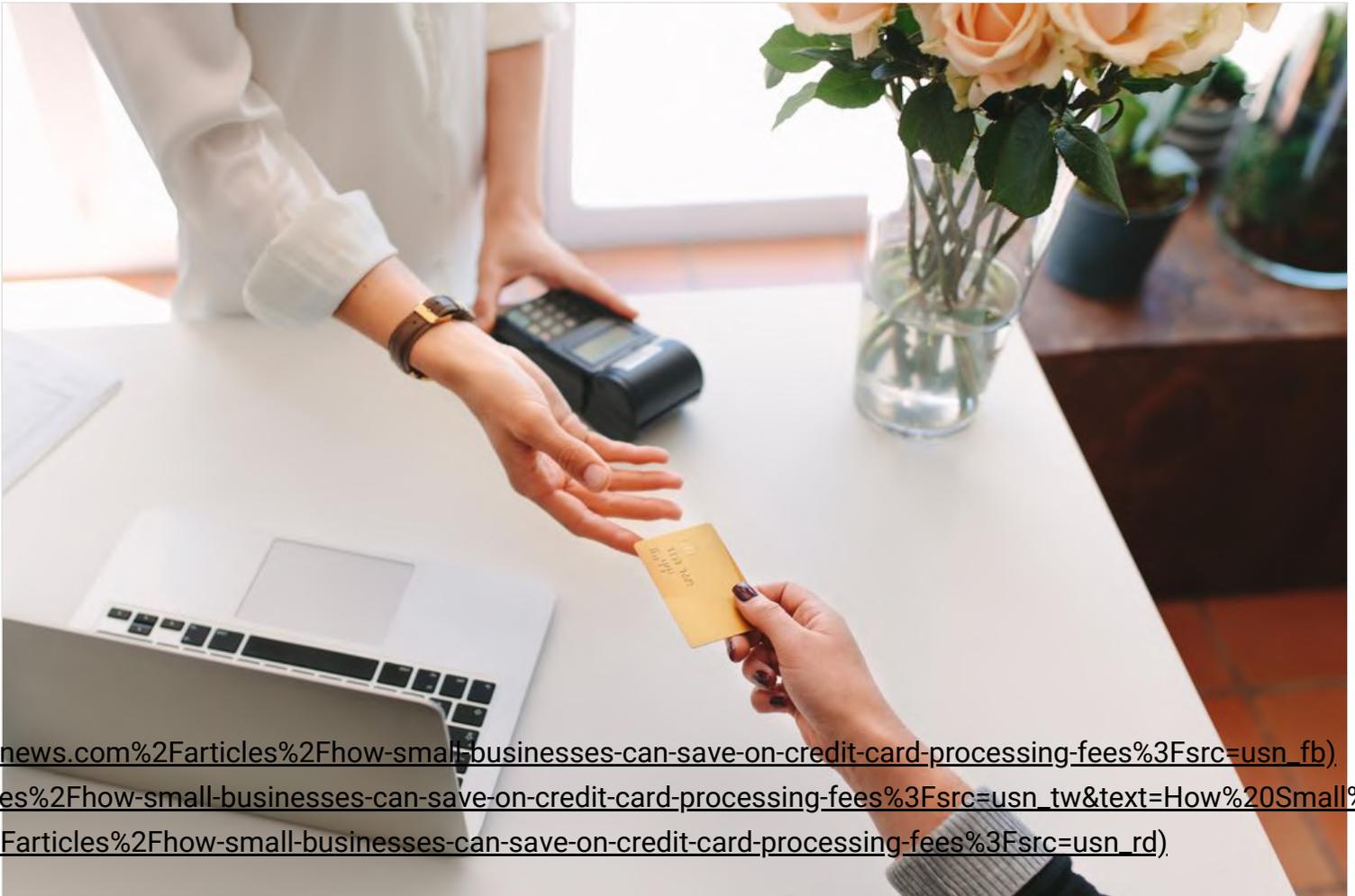# How Small Businesses Can Save on Credit Card Processing Fees

Credit card processing fees can be confusing. Here's how to save on these costs.

By Chris Kissell (https://www.usnews.com/topics/author/chris-kissell), Contributor | Oct. 24, 2018, at 9:00 a.m.

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Each time a customer pays for a purchase with a credit or debit card, the seller must pay a credit card processing fee. Credit card processors, also known as merchant account providers, help facilitate credit card transactions and charge fees for doing so.

These fees can take a lot out of the bottom line. According to The Nilson Report, a payment industry newsletter, the weighted average processing fees for Visa, Mastercard, American Express and Discover credit cards (https://creditcards.usnews.com/articles/the-pros-and-cons-of-credit-cards) ranged from 2.09 to 2.33 percent in 2017.

It's important to consider these costs carefully, especially if a large number of your customers pay with plastic, says Gerri Detweiler, education director for Nav, which helps business owners build credit. "Those costs may seem small on individual purchases, but they can add up quickly."

Fortunately, there are ways to save on credit card processing fee costs.

Credit Card Processing Fees

A number of costs are factored into credit card processing fees:

[Read: The Best Business Credit Cards of 2018 (https://creditcards.usnews.com/business).]

Interchange fee. Credit card issuers collect this fee, which is typically the biggest cost associated with processing. This fee is usually a percentage of the transaction, plus an additional fixed amount. Interchange fees vary based on several factors, including the network behind the card, the card type (such as business cards or rewards cards (https://creditcards.usnews.com/rewards)), how the payment is processed and the way you categorize your business.

Assessment or service fee. This smaller fee is paid directly to the credit card network, such as Visa or Discover. Rates often are lower for debit cards than for credit cards, says Jeremy Layton, chief executive officer at Verisave, a credit card processing consulting firm. You may also pay other fees as part of this type of cost, such as foreign transaction fees.

Payment processor's markup. The credit card processor itself makes money by charging a small fee.

Credit Card Processing Fee Models

Choosing the right credit card payment processor can help you get the service you need at the best price. Merchant account providers use several different types of models when charging fees. The major models include:

Flat-rate. With a flat-rate credit card processing fee, the small business pays a flat fee, such as 2.75 percent, for all types of credit card transactions.

Interchange-plus. If your business pays interchange-plus pricing, which is sometimes known as interchange pass through, you will pay both the interchange rate, plus an amount over that rate on each transaction. Robert Livingstone, president of credit card processing firm Ideal Cost, says this model "takes the individual wholesale rate from Visa, Mastercard, Discover – and in many cases now, American Express – and applies a small markup."

Tiered. When a business pays tiered credit card processing fees, the cost varies depending on the type of card the business processes in a given transaction. Credit card processing companies that use tiered pricing divide transactions into a handful of tiers and charge merchants based on the tier that a transaction falls into. A common example is a three-tiered system with the tiers labeled qualified, midqualified and nonqualified.

Choosing the right payment structure depends on your needs and the type of transactions you make. Both Livingstone and Layton laud the interchange-plus model, saying it offers transparency. "You pay exactly what Visa and Mastercard are charging based on the type of card your customer is using," Layton says.

However, another model might make more sense to some business owners. Layton notes that a flat fee allows a business to know the exact percentage it will pay in monthly credit card processing fees. "It's not going to go up and down – it's not going to be 3 percent one month, 2.5 percent the next," he says. "You can budget around that in a pretty simple manner."

Choosing a Credit Card Processor

Choosing a processor with the right payment structure, fees and service for you is one of the most important factors for saving on credit card processing fees. And although price is important, it's not the only thing to look at when choosing a processor. In fact, many companies believe other factors are more important. In a study conducted by Nav that examined what small business owners value in a credit card processor, preliminary results have found that "most small business owners are looking for a payment processing system that's easy to use," Detweiler says.

That makes sense because a "cumbersome, time-consuming" processing system can impact the bottom line if it frustrates customers and causes them to go elsewhere, she says.

"Make sure it's easy for you and your customers to use," Detweiler says. She adds that it's worth paying a little more if you want a system that fits your needs, has strong security features and is cutting-edge.

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Detweiler also urges small businesses to ask credit card processors to carefully explain all fees that they charge and to disclose what your options will be if you decide to terminate the relationship.

This last point is something that Layton also stresses. He says some processors charge early termination fees that can make it difficult to switch to a new processor. Check the terms of any agreement to make sure you will not be on the hook for a large early termination fee that would outweigh the cost benefit of making such a change.

Layton also recommends talking to other businesses to get feedback on their credit card processing. And you could work with a credit card processing consulting firm to try to get a better deal.

Negotiating Credit Card Processing Fees

Detweiler says many small businesses also fail to negotiate lower fees. She acknowledges that doing so can be difficult. However, negotiation can be a source of savings whether you're just signing up with a credit card processor or reviewing an existing relationship.

Although credit card processing fee negotiation can be confusing and complex, she suggests reviewing your costs once a year. Look over your transactions carefully and make sure they are being categorized properly – and at the lowest possible cost.

If you are a high-volume business, or even one that is simply growing, your increased value to the processor might give you more room to negotiate. Layton says many processors are willing to negotiate fees because they know they will make up the money by having loyal customers for a long period of time.

Detweiler says that initial results from the Nav credit card processing survey have found that less than one-quarter of businesses surveyed tried to negotiate their processing fees. But of those who did, nearly 80 percent have been successful.

"Most business owners don't bother to negotiate merchant processing fees, but when they do, they are often successful," she says, noting it never hurts to ask. "If you don't think you're getting a good deal, shop around."

Ongoing Ways to Save on Credit Card Processing Fees

Keeping credit card processing fees low requires more than choosing the right processing company.

Layton recommends staying on top of the fees you're paying by reviewing the statements you get every month, although he acknowledges that they can be confusing. He also urges small business owners to keep an eye out for changes in fee structures. For Visa and Mastercard, these changes occur in April and October of each year.

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[Read: The Best Credit Cards with High Credit Limits (https://creditcards.usnews.com/high-credit-limits).]

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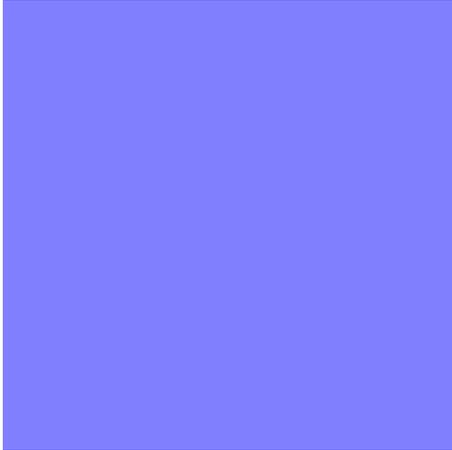
The way you take payments can lower your credit card fees. For example, swiping a credit card at the point of sale comes with a lower fee than manually entering the information, as the latter is considered riskier and less secure.

If your business frequently receives chargebacks (https://creditcards.usnews.com/articles/how-to-dispute-a-credit-card-charge), you may have to pay higher fees. So, try to avoid falling into this situation too often.

Finally, you may be able to reduce the cost of your fees by adding a small surcharge onto each transaction. However, some states prohibit this practice, so make sure it is legal to do so first.

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